

Digital Freedom Initiative

Peru

Program Design

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SUMMARY

Micro, small and medium enterprises (MSMEs) are a large and critical part of every national economy, but are especially important in Peru. They represent 98 percent of the enterprises in Peru and hold enormous potential for Peru's economy.¹ These enterprises are currently faced with historic opportunities and also risks.

Peru has embarked upon an ambitious and far reaching decentralization program and is at the same time actively pursuing further integration in the world economy through a Free Trade Agreement with its biggest trading partner, the United States. Economic growth due to enhanced governance and trade liberalization will create new opportunities but the extent to which MSMEs can participate in the growth will depend on their ability to improve productivity and access markets and assets. If these businesses can grow, they can play a critical role in helping Peru increase employment and decrease poverty.

The goal of the Digital Freedom Initiative worldwide is to help entrepreneurs and small businesses make better use of information and communications technology (ICT) so that they can create jobs and improve the standards of living of the families of workers. The United States, in both public and private sectors, is uniquely positioned as a world leader in the development of innovative ICTs.

The strategy for Peru, as elsewhere under DFI, is therefore one that includes close partnership with the local business community as well as with Peruvian Government policy makers. This partnership will adapt ICTs to address the special problems of MSMEs in Peru, and will seek to transform and enhance national policies and infrastructure to make these ICTs more readily accessible.

Over three years, DFI in Peru will:

- Clarify and enhance the policy and regulatory environment to promote ICT access and application. This critical assistance will help both to ensure that public investment in ICT is effective and sustainable, and to stimulate essential private investment and innovation. The private sector must have the freedom and the market based incentives to develop new ICT business models and practices. Assistance will be provided through direct provision of services to Peruvian Government policy makers, through the facilitation of public and private partnerships, and the support of consultative mechanisms and business associations.
- Expand the market for ICT products and services by assisting MSMEs to use these products and services to exploit opportunities to improve productivity, expand sales, and further integrate into the formal economy. MSMEs will be provided with the tools and training which they require to create and exploit opportunities in improved governance and liberalized trade. Commercial BDS providers and BDS organizations will be complemented by volunteers from both the Peruvian and United States private sector and national service organizations.

¹ Sources referenced in COPEME (Consortio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresas) Proposal to USAID, Economic Growth team, September 2003.

DFI PROGRAM DESIGN

Today, Peru's annual per capita income is declining; 52 percent of the population is underemployed and 8 percent are unemployed. Peru has a highly unequal income distribution and endemic poverty with about 55 percent of the population living below the poverty level and 24 percent living in extreme poverty.² Poverty and income inequalities are a lasting legacy in Peru; a problem which has received the attention of President Toledo's democratically elected government.

Part of the GOP decision to embark upon an ambitious and far reaching decentralization program was its recognition that the decentralization of power, capacities and resources was necessary to promote more equitable development and to enhance the efficiency of the state. Decentralized decision making and control of resources in the areas of government procurement (including e-procurement), local economic development, and enforcement of policy will hold decision makers more accountable for their actions, will increase transparency, and will improve the availability of information. These developments will expand opportunities for MSMEs to access important markets.

Another key and far reaching process was recently started by U.S. Trade Representative, Robert Zoellick's announcement that the USG intends to begin discussions leading to negotiations of a Free Trade Agreement (FTA) with Peru, representing an unparalleled opportunity for Peru to lock in benefits it has received from the Andean Trade Promotion and Drug Eradication Agreement (ATPDEA). Unlike the ATPDEA, the FTA is a two way agreement which carries both new opportunities and new risks for Peru. Peru's interest in an FTA is greatly strengthened by the belief that Peruvian enterprises, including MSMEs, will be able to take advantage of these opportunities and lead Peru into a new era of free trade and economic expansion.

MSMEs, representing 98 percent of the enterprises in Peru, have several serious weaknesses: low productivity, little understanding regarding the potential uses of technology, and lack of consistent quality in production and service delivery. These problems are most severe for small businesses outside of Lima where poverty and underemployment rates are the highest. While those businesses located in Lima and other major cities have some access to a growing ICT sector to help increase their productivity, businesses in secondary cities and towns face larger challenges. Here the goal is improving productivity through the enhanced use of ICTs so that markets can be more effectively exploited.

Businesses in these key areas fall into a variety of sectors, among the most important being:

² USAID/Peru FY-2003 Congressional Budget Justification

- Agro-Industry
- Textiles and Apparel
- Services (e.g., cleaning, transportation)
- Wood Products
- Tourism and Artisan Products

The challenges for DFI Peru are clear; create a legal and regulatory environment that promotes competition and innovation in ICT technologies and provides MSMEs with the knowledge, tools, and training to exploit current and growing opportunities. Over three years, DFI in Peru will:

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- Expand the market for ICT products and services by assisting MSMEs to use these products and services to exploit opportunities to improve productivity, expand sales, and further integrate into the formal economy. MSMEs will be provided with the tools and training which they require to create and exploit opportunities in improved governance and liberalized trade. Commercial BDS providers and BDS organizations will be complemented by volunteers from both the Peruvian and United States private sector and national service organizations.

The ICT Policy and Regulatory Environment

An effective ICT policy and regulatory environment in Peru is essential to the growth of micro and small enterprises. Policies must encourage competition and public investment must be made in an effective and sustainable manner. In the presence of an open and enabling policy environment, ICT firms will be prepared to take on the challenge of furnishing ICT products and services to small and micro enterprises.

The government organization principally responsible for promoting the growth of telecommunications services in Peru is the *Organismo de la Inversión Privada en Telecomunicaciones* (OSIPTEL). In 1991, OSIPTEL was formed to oversee Peru's transition to a competitive telecommunications market, and was given the task of encouraging telecommunications growth in all parts of the country. With privatization of

the telecom industry the number of phones in homes and businesses has increased by more than three-fold in less than five years. However, the success of the initial telecommunications privatization has faded in the background; better service and lower tariffs have lost their impact. This is to be expected as reforms such as the telecommunications privatization need to be successively refined as has been indeed the case in Chile.

Assistance will be provided to develop a second generation telecommunications strategy. The current strategy, developed five years ago, is today obsolete as is any approach based on spectrum management of separate devices for separate functions. Microprocessors eliminate the economic and technical rationale for spectrum segregation into service classifications. Any portion of the spectrum, whether classified as trunked radio, television broadcast, telephony, data, etc. can carry digital signals including data, voice, video or text messages to be processed by a single device, a microprocessor. Digital handheld devices can now roam and transmit signals over different spectrum such as PCS, analog cellular, etc. The signals can be voice, fax, or e-mail. The consumer does not care what spectrum is used. All that is important is that the message gets through. Peru's National Telecommunications Strategy should reflect this reality and be developed in conjunction with the MTC and the Comision para el Desarrollo del la Sociedad de la Informacion (CODESI) to ensure that the strategy has private sector support and outlines complementary roles. The strategy will identify key areas where further assistance will be provided.

DFI will also leverage a U.S. Trade and Development Agency grant of \$325,000 signed with OSIPTEL. Under the grant, a U.S. firm will provide technical assistance for capacity building in the telecommunications sector of Peru. The technical assistance is designed to help OSIPTEL strengthen its capacity and address shortfalls in the existing regulatory regime. The technical assistance will include:

- A survey of the state of the market and competition
- An analysis of the regulatory environment
- A review and analysis of pricing and tariff schemes and mechanisms
- Identification of the implications for marginal urban and rural telecommunications development
- The preparation of a draft policy document
- A review to strengthen OSIPTEL's supervision and oversight capabilities
- The organization of in-country workshops
- The preparation of draft and final reports and the presentation of findings

OSIPTEL is drafting a brief paper outlining its short-term priorities which include issues arising out of its October 15-16 visit to the Federal Communications Commission sponsored by the Telecommunications Leadership Program, which is managed by the Department of State and funded by USAID. Topics covered during those meetings included best practices for the distribution of universal service funds, and regulatory techniques used to encourage local competition and to determine access charges.

OSIPTEL has instituted a special surcharge to establish the *Fondo de Inversión en Telecomunicaciones* (FITEL) which it is using to encourage rural growth in both telecommunications and related technologies (for example, the Internet). Since 2001, through a series of four public tenders, FITEL has funded the placement of over 6,500 public telephones in nearly 5,000 population centers. Most of these telephones currently do not generate sufficient revenues to cover operating costs. These highly subsidized rural telephone services are at risk of going out of service with the removal of the subsidy. Future public investments in ICT infrastructure need to be more carefully designed and executed. Assistance will be provided to OSIPTEL to achieve this objective.

OSIPTEL is not the only part of the Peruvian Government developing policies likely to have an impact on small and micro enterprises in Peru. Peru's *Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual* (INDECOPI) has played a leading role in elaborating Peru's existing framework for the Internet, electronic commerce and intellectual property rights.

In 2000, Peru passed three key laws on electronic contracts, electronic signatures, and digital crime that have defined its basic framework for e-commerce. INDECOPI has expressed a strong interest in receiving assistance under DFI to review and update these laws and associated regulations. INDECOPI also has specifically requested assistance in a review of Peru's copyright law to ensure that it and related regulations fully meet all of Peru's obligations under the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty. This assistance will be provided.

In addition to direct assistance to government regulators, another important DFI implementation strategy is engendering close consultation with the private sector in all initiative aspects, including discussions of national policy. The most efficient way to do this is often through intermediary advocacy organizations. For example, in Peru, chambers of commerce exist at both the regional and town levels throughout the country. The American Chamber of Commerce (AmCham) of Peru also has an active Technology and Telecommunications Committee. DFI will consult closely with these and similar organizations in Peru as policy recommendations are developed.

Peru recently established the multisectoral *Comisión para el Desarrollo de la Sociedad de la Información* (CODESI), which includes representatives from government, the private sector and civil society, and is defining Peru's overall "information society" strategy. The chairman of CODESI's working group on electronic commerce has requested assistance in assessing Peru's e-commerce framework, identifying and removing existing barriers, and providing technical assistance. To help build consensus and momentum for appropriate policy and regulatory reform, CODESI has suggested cosponsoring an awareness-raising and consensus-building forum on e-commerce policy and regulatory issues. CODESI has also requested additional assistance in directly promoting e-commerce, potentially through a forum that would provide practical, real-world advice to small and micro enterprises on how to use information technology, in particular the Internet and e-commerce, to improve productivity and expand into new global markets. Opportunities for supporting this initiative will be explored.

By coordinating regulatory and policy support, by establishing a level playing field and a transparent legal and regulatory environment, DFI will call upon private-sector firms in both the United States and in Peru to consider how their technologies can be adapted and applied to improve competition in Peru and to provide new ICT products and services in secondary cities and towns.

Enterprises and Application of ICTs

DFI will work through the *Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa* (COPEME) and PERUCAMARAS to implement a strategy to ensure that MSMEs are able to take advantage of evolving opportunities in the area of state procurement, subcontracting, and integration in export markets. The market for ICT business development services (BDS) will be expanded to provide MSMEs with the tools and training which they require to create and exploit these opportunities in improved governance and liberalized trade. Commercial BDS providers and BDS organizations will be complemented by volunteers from both the Peruvian and United States private sector and national service organizations.

BDS firms will teach MSMEs all manner of specialized skills and applications, including how to use ICTs to deliver products, access market prices, communicate with brokers, and participate in certification programs. ICTs will assist in promoting products and services, in establishing networks of MSMEs capable of responding to large orders, in improving management systems and production processes, and in more closely linking MSMEs to larger businesses through subcontracting. In a related activity, the Government of Peru provides vouchers to small businesses to encourage them to use BDS firms for training and technical assistance, which may include assistance in how to apply ICTs effectively to business operations.

These BDS services are timely, given that a major new Peruvian Government program seeks to make Government's own procurement requirements accessible to small businesses. An e-procurement application is in development, through which the Government of Peru will advertise its needs and request offers via a website. Small businesses must not only be able to access this website in order to know what they might sell, but also must be able to analyze what they find on the website to determine how they can improve and certify their products to become regular suppliers to the Government of Peru.

DFI will also work through Aid to Artisans, helping artisans across Peru to develop products that are market driven and designed, to enhance market linkages, and to increase their business capacity, i.e. their market readiness. Depending on the size and the sophistication of an artisan's business, Aid to Artisans will teach how to incorporate ICT as an element in each program component. For example, the Internet will be used to inspect the online catalogs of American firms, for example Pottery Barn, that sell decorative accessories, helping small firms in Peru understand how they must adapt their own product offerings to compete on the basis of both price and quality with firms from other countries from which companies like Pottery Barn source their products for retail sale in the United States.

DFI/Peru Strategy and Implementation

The DFI as a whole benefits from the coordination of the major components that will be implemented simultaneously over a period of three years and will enable MSMEs to incorporate ICT in their operations, to grow, to provide jobs, and to increase. To achieve these results, DFI proposes a particular implementation approach. This approach favors:

- Placing volunteers in businesses and community centers to provide small businesses and entrepreneurs with the information and communications technology skills and knowledge to operate more efficiently while competing in the global economy.
- Partnering with U.S. business entities whose voluntary, innovative and entrepreneurial participation in DFI provides access to new markets and competitive opportunities for developing products and services in emerging economies.

These constitute the DFI strategy for implementation. Implementation will be carried out by the various partners of DFI, assisted by a DFI/Peru coordinator. The specifics of the various partnerships under DFI are yet to be negotiated, but the broad anticipated outline, based on preliminary discussions, is as follows:

ICT Policy and Regulatory Environment

The principal organizations responsible for telecommunications policy and regulation, and related issues are OSIPTEL and INDECOPI. Technical assistance under DFI will be provided by the US State Department through the Telecommunications Leadership

Program, and USAID through its Creating Conditions for Economic Revitalization (CRECER) activity. Other assistance may be provided by the US Federal Communications Commission, the US National Telecommunications and Information Administration, and the US Trade and Development Agency. Each cooperating organization will fund its own activities. The US Commerce Department and the US Small Business Administration will facilitate collaboration between the Peruvian and US branches of the American Chamber, as well as other US and Peruvian business linkages.

Micro and Small Enterprises and Applications of ICTs

USAID will implement a broad program of support for small and micro enterprises to make effective use of ICTs, furnishing its assistance through COPEME, Aid to Artisans, and other organizations, under contracts, grants, and cooperative agreements. The US Peace Corps will deploy some 30 volunteers to assist small businesses, including a number of volunteers who will assist with the enhanced use of rural telecenters in locations that have neither electricity nor basic telecommunications infrastructure. Peruvian universities that furnish graduating students on volunteer internships may be deployed in service to the objectives of DFI. Leading businesses in Peru, will likely wish to furnish related volunteer technical support to oversee their projects and to advise MSMEs in the uses of their technologies. Firms in the United States, including those participating in the DFI Roundtable organized by the US Commerce Department, and that also furnish equipment and other technology, may also wish to furnish related volunteer technical support, either directly from the United States or through their Peru affiliates.

DFI Coordination

A DFI Coordinator will be selected to work in COPEME to assure that communications flow smoothly within and among the various complex relationships that together constitute DFI in Peru.

ANNEX: The Digital Freedom Initiative – Global Overview

The US Department of Commerce with the Department of State, the Agency for International Development (USAID), the Peace Corps and the Freedom Corps launched the Digital Freedom Initiative (DFI) – a new form of public-private partnership - on March 4, 2003 to promote economic growth for small businesses and entrepreneurs in the developing world through information and communication technologies. The DFI launched its first pilot activities in Senegal, and may expand to as many as twenty countries worldwide. The DFI has three objectives:

- **Enable innovation through volunteer-led business and entrepreneur assistance.** The DFI will place volunteers from the private sector and NGOs with small businesses and entrepreneurs to assist in growing their businesses through the application of technology and the transfer of business expertise.
- **Drive pro-growth legal and regulatory reform.** The DFI will assist countries in developing pro-growth regulatory and legal structures to enhance business competitiveness.
- **Leverage existing information and communications infrastructure to promote economic growth.** The DFI will identify opportunities to leverage existing infrastructure (e.g. in-country cybercafes and telecenters) to generate information and services (e.g. financial services and commodity price information) to help entrepreneurs and small businesses better compete in both the regional and global market place.

For additional information, visit <http://www.dfi.gov>